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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 000071

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SUBJECT: LEGISLATIVE YUAN REJECTS DEFENSE SPECIAL BUDGET
BILL; EXTENDED DELAY LIKELY

Classified By: AIT Director Douglas H. Paal. Reason: 1.4 (B,D)

11. (C) Summary. On January 4, the Legislative Yuan (LY) once again refused to put the 610.8 billion NT (USD 18 billion) Defense Special Budget on the LY agenda. With only two weeks remaining, prospects for passage in the current session are virtually zero. The ruling Democratic Progressive Party (DPP) places all blame for the Special Budget failure on the post-election political machinations of the KMT-led Pan-Blue coalition. KMT leaders insist they are not the obstacle but offer a litany of all questions and often misinformation surrounding the Special Budget and appear intent on keeping it as a political football. The DPP sees the Special Budget as a perfect opportunity to blacken Pan-Blue's image as an irresponsible party that ignores Taiwan's security and defense. The Special Budget likely faces months of political gamesmanship -- although DPP legislative leaders promise they will try again tomorrow, January 11, and are trying to work out a way for quick passage early next session. End Summary.

12. (C) In its regular Tuesday meeting on January 4, the Legislative Yuan (LY) Procedural Committee once again -- reportedly the fourteenth time -- voted along strictly Blue-Green coalition lines against placing the 610.8 billion NT (USD 18 billion) Defense Special Budget on the LY agenda. Technically, there are two Tuesdays remaining before the end of the current LY session on January 21. However it would be extremely difficult for the LY to go through the necessary steps required to carry over a draft bill to the next legislative session beginning February 1. A draft bill must be approved by a majority of the Procedural Committee, go through a first reading on the LY floor, and finally be unanimously approved by the relevant LY Committee, in this case the Defense Committee, before it can carry over to the next session. Failing this, a draft bill &automatically returns to zero8 (zidong guiling), meaning it must be reintroduced from scratch by the Executive Yuan in the next session that begins February 1.

13. (C) One other LY procedural requirement not only complicates approval in these last two weeks of the current session but could cause a long delay upon reintroduction in the next session. According to LY regulations, approval of a bill by the relevant committee must be unanimous, otherwise the draft bill automatically goes into a four-month negotiation period, aptly termed &frozen period.8

DPP Attempts Compromise

14. (C) With the odds for Procedural Committee approval stacked against the Special Budget at this late date in the LY session, Lee Wen-chung, DPP ranking member on the Defense Committee and a member of the Procedural Committee, worked out a two-part compromise &to show good will8 and elicit the votes of Pan-Blue legislators for the Special Budget. First, the DPP would agree to split the two parts of the special defense package (the &Major Defense Procurement Authorization Bill8 and the &Special Budget8), in accordance with a long-term demand of Pan-Blue legislators. The authorization bill would then be approved and put on the present LY session agenda and the government (Executive Yuan) would reintroduce the &Special Budget8 in the next session. Second, the government would pledge to cut NT 100 billion from the NT 610.8 billion special budget proposal, with the &leftover8 100 billion going for social welfare programs. Lee told AIT that the 100 billion cut would come from eliminating the requirement that the 12 Special Budget submarines be manufactured in Taiwan.

15. (C) The KMT legislators on the Procedural Committee, however, voted down the two bills as a package. At the same time the Procedural Committee also rejected the two other government proposed bills -- the President,s Control Yuan nomination list and the Pan-Green &Defense of the Republic of China Bill,8 intended as a response to the PRC,s recently announced &Anti-Secession (Draft) Law.8

16. (C) Vice Minister of National Defense (MND) Michael Tsai told AIT on January 6 that both MND and the National Security Council (NSC) had endorsed Lee,s compromise. Lee, however, told AIT that the Presidential Office did not follow through

with sufficient support to persuade Blue legislators to sign on to his compromise.

KMT Leaders Dig in Their Heels

17. (C) KMT Legislative Yuan Vice Chairman P. K. Chiang and four other KMT leaders discussed the Special Budget stalemate with the Deputy Director on January 6. When the Deputy Director noted that negotiations toward the Special Budget had begun in the 1990s under the KMT government, the KMT leaders responded that Pan-Blue was not the obstacle. They then proceeded to throw out a grab-bag of most of the criticisms of the Special Budget that have been raised (and rebutted) in the public arena. Retired military officer and KMT defense specialist Shuai Hua-min, a regular feature on TV talk shows, raised only objections to the Special Budget. Taiwan, he said, does not know the exact nature of the systems in the submarine package and fears the weapons systems being sold to Taiwan would be special, dumbed-down versions that would become obsolete in a decade or so. So why, he mused, should Taiwan purchase these weapons? Shuai, who has participated in U.S.-Taiwan defense discussions in Monterey and discussed the Special Budget with AIT LAS and OSD officials, then criticized the DPP government for not providing the military with sufficient training. Until that was resolved, he suggested, new systems would be meaningless.

18. (C) Newly-elected KMT legislator Su Chi rehashed the argument of one Taiwan aerospace expert who claimed Patriot missiles would be virtually useless, because Taiwan would not have time to receive warnings from PACOM in order to respond to a PRC missile attack (AIT pointed out that the Patriots have self-contained radar systems and would also draw on warning from Taiwan's long-range radar). The Special Budget package, Su continued, was entirely too expensive for Taiwan. He then shifted gears and stated that many people objected to the Special Budget because they fear the weapon systems might be used to further Chen Shui-bian's pro-independence agenda. Amb. Loh I-cheng (Lu Yi-cheng) explained that the KMT must take into consideration the views of the Democratic Alliance, which strongly opposes the Special Budget and organized the September 26, 2004 anti-Special Budget demonstration in Taipei.

19. (C) When the Deputy Director emphasized the high stakes of the Defense Special Budget in terms of both cross-Strait security and US-Taiwan relations, the KMT leaders' response was essentially that until the DPP government resolved the domestic political situation, the constitutional issue, and Taiwan identity to Pan Blue's satisfaction they would not move on the Special Budget appropriation.

I Have a Plan, Says Lee Wen-chung

10. (C) Lee Wen-chung told AIT that he was not surprised by Pan-Blue's continued boycott of the Special Budget, since the coalition had made the Defense Special Budget such a big campaign issue. During the campaign, Blue candidates had charged the Special Budget was a waste of money and claimed the U.S. was charging Taiwan two to three times higher than normal for the weapons systems. Now, after the election, they had to keep their promise and maintain their boycott. Lee, however, was miffed that he had not received full or sufficient support for his compromise package from the Presidential Office.

11. (C) Lee is working on a second compromise with the knowledge -- and, implicitly, support -- of MND, Vice Minister Tsai's Special Assistant York Chen told AIT January 16. Lee told AIT that he believes this compromise would get the Defense Special Budget approved within one month in the next LY session, which begins on February 1. Lee is proposing that the revised Defense Special Budget, to be introduced in the LY at the beginning of the next session, be slashed by NT 200-250 billion by removing the submarine made-in-Taiwan provision (a saving of NT 100 billion) and separating out the PAC3 missiles (another NT 100-150 billion), shifting them to the regular MND budget. When AIT pointed out that breaking up the carefully calibrated weapons package would be problematic for the U.S., Lee responded that he hoped for a three percent-plus increase in the annual defense budget, which would cover the cost of the missiles over three years.

Comment

12. (C) Introduced in the very early days of the LY campaign, the Special Budget stalemate has been almost exclusively an outgrowth of the bitter partisan rivalry between Blue and Green. For the opposition Pan Blue, security and defense are taking a backseat to politics, as the coalition seeks to leverage its unexpected election

victory into greater influence on both policy and new government formation. The fact that the Pan Blue-controlled LY Procedural Committee rejected all three bills proposed by the DPP government, while passing three tax relief bills, further demonstrates the political nature of the legislative stalemate. But the DPP government shares a large measure of responsibility via its less than stellar performance explaining the bill to the LY and to the public.

13. (C) The January 4 vote could effectively delay the Special Budget package for a considerable time. NSC Secretary General Chiou I-jen told AIT that any changes to

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the special appropriation bills, almost inevitable before the Executive Yuan would resubmit them to the next LY session, would delay re-introduction to the LY by six months or more. Unless there is a dramatic change in the political climate here, which we do not expect, the Special Budget would then return to the LY foodfight on the eve of the LY's summer recess - a recipe for continued failure.
PAAL